



POLICE AND FIRE RETIREMENT SYSTEM OF SPRINGFIELD, MO

840 Boonville
Springfield, Missouri 65801
Voice Mail (417) 831-8901
Box Number 44140

Minutes October 14, 2010

1. Call to Order

Homan called the meeting to order at 8:35 a.m. Minutes taken by White.

Attendance

Members	Representation	Present	Absent
Ken Homan	President	X	
John Bishop	Citizen		X
David Carter	Fire	X	
Charlie Cowherd	Citizen	X	
Jim Edwards	Police		X
James Gillette	Citizen	X	
Josh Hartman	Citizen		X
Marilyn Hill	Citizen		X
Ron Hoffinan	Retiree	X	
Brady Stark (NV)	Police	X	
Chris Thompson (NV)	Fire	X	
James Dancy (NV)	Retiree	X	
Mary Mannix-Decker (NV)	Finance	X	
Cindy Rushefsky (NV)	City Council Liaison	X	
Dan Wichmer (NV)	Law	X	
Nikki White (NV)	Secretary	X	

NV = Non-voting

2. Approval Meeting Minutes – September 16, 2010 (open session)

Cowherd made a motion to approve the September 16, 2010 open session minutes as presented; 2nd by Carter. Vote all: Yes

3. Approval of Financial Statement Ending August 31, 2010

Homan asked Mannix-Decker to review the financial statement ending August 31, 2010. The following items of interest were reported:

- As of August 31, 2010 the fund had net assets of \$142,690,747.
- Cash is down due to refunding the Tier II contributions and it is also the first month of no contributions from Tier II employees. Finance will be doing some cash flow projections to

Nikki White

determine how much of the sales tax monies will need to be held in the cash account in order to cover the benefits each month. Up to this point 100% of the monies have been invested.

- Galliard outperformed the index and was up \$530,861.
- Brandywine performed below the index, but was up \$283,612.
- Pictet outperformed the index, but was down \$599,283.
- Total contributions were \$810,565 and net investment income was down \$2,917,246.
- Total deductions were \$1,960,697 for a net decrease of \$4,115,914 for the month.
- There are no Public Safety Sales Tax monies listed in August because of the accrual process. It takes 60 days for the monies to be collected so they will start showing on the September statement.
- It was requested that the previous month be shown on the balance sheet in the future.

Hoffman made a motion to approve the financials ending August 31, 2010; 2nd by Cowherd. Vote all: Yes.

4. Review of Applications

Retiree's Name	Application Type	Application Date	Department
James Johnson	Surviving Spouse	9-23-2010	Fire
Daniel McGuire	Surviving Spouse	9-27-2010	Police

Homan made a motion to approve the applications for Johnson and McGuire; 2nd by Gillette. Vote all: Yes.

5. Approval of Retirement Calculations

Survivor's Pension Calculation

Retiree's Name	Survivor's Name	Survivor's Pension Amount	Last Pension Amount
James Johnson	Roselyn Johnson	\$1,607.45	\$107.16
Dan McGuire	Priscilla McGuire	\$2,429.21	\$2,871.79

White informed the board that the death certificates and marriage licenses for both of the individuals are on file. Homan made a motion to approve the surviving spouse pension calculations for Johnson and McGuire; 2nd by Gillette. Vote all: Yes.

Retiree Final Pension Payment

Retiree's Name	Department	Final Pension Amount
Larry Shelton	Police	\$932.81

Homan made a motion to approve the final pension check for Shelton; 2nd by Cowherd. Vote all: Yes.

6. Return of Contributions

Marcus Winstead	Relinquishment – 4.9 yrs.	Fire.	\$13,208.13
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Homan made a motion to approve the return of contribution for Winstead; 2nd by Carter. Vote all: Yes.

7. Old Business

a. Investment Consultant

Homan reported that the three finalists were interviewed on September 27th. A scoring system was utilized to evaluate the candidates by each board member. Thompson said he was interested in Bishop and Hartman's comments as members of the Investment Subcommittee. Homan said that the subcommittee met after the interviews and voted on a recommendation to make to the full board. The current contract with Segal expires October 31st so there is some urgency in determining the new consultant. Some questioned about having a teleconference so that all members could vote.

Homan reported that the Investment Subcommittee unanimously recommends Hammond Associates to serve as the new consultant. They have over \$50 billion under advisement and are very deep as far as their intellectual capital. There is one staff member for every two clients. They will provide monthly reports and online results access. Hammond is very strong in alternatives and is very flexible in adopting a strategy like the board has talked about. Their fee was one hurdle and the other was the age of the main advisor that would work with the account in terms of establishing a long-term relationship.

The subcommittee recommends Hammonds because of the depth of the research and capabilities on the alternative side. They also had some great referrals including the Houston Police and Fire Fund who is managed by Jerry Woodham. Rushefsky asked how closed Woodham is to retirement. Thompson said that he indicated he would probably retire in five years. Homan said he's the director of their public pension division, but that division isn't very large. They also service the City of Joplin. Homan said he has talked with the City of Houston at length and they are very pleased not only with Hammond, but with Woodham as well. In fact, they said if they had it to do all over again they would select Woodham again as the advisor. Homan said that he thinks the board should make an issue of having a second associate that is very strong in the account and be a communication source with the board as a back up to Woodham. Hoffman said that he has no doubt that Woodham is qualified to run the account. He just wants to make sure that the information is concise so that the board doesn't end up scratching their heads after each report. Rushefsky added that if the board approves to pay more than the previous consultant then it becomes important to know who the person will be that will pick up the account after Woodham retires.

Homan reported that Hammond's initial proposal was \$119,000 per year. He went back to them and said they are way out of line with the other candidates. He told them that given the climate with the City and the problems with the pension fund, it is going to be hard to sell nearly doubling the consultant fee regardless of capabilities. Also, a core-satellite plan shouldn't require the higher fees. Homan and Woodham negotiated \$85,000 for the first year with a 3% increase each year for a four-year period. Mannix-Decker said she found it interesting that the company could be for sale

and Woodham indicated that perhaps they could be actively seeking a buyer. Homan said that would be a concern for a smaller firm, but not so much with one of their size because he doesn't know if you would expect a whole lot of changes if they were purchased.

Thompson questioned whether Council would approve a change in the investment allocations. Rushefsky said she feels that Council looks to the Pension Board to make those decisions. However, she reiterated the need for more communication between the board and Council. She thinks it's imperative that both communicate and possibly have occasional informational meetings. Homan said that Woodham would fit very well into the role of hosting informational meetings with Council especially if major changes are in the works.

Homan asked if anyone needed more information on the investment consultant recommendation. It was questioned if only those members who were present at the interviews were permitted to vote. Carter said he recalls Wichmer saying previously that any board member could vote and in this situation members have gathered information from those who attended the interviews as well as the recommendation of the Investment Subcommittee. Rushefsky said the purpose of a committee is to make recommendations for the full board to vote upon. Several debated whether to have a conference call to vote. Stark asked if Bishop and Hartman's opinions were much different than the rest of the subcommittee. Homan said no, the subcommittee was unanimous with Hammond with the caveat that the fee was high. Stark questioned whether there was much else to discuss if those not present were in favor of Hammond and those in attendance today can obviously vote on their choice. Rushefsky said if money is the determining factor then she can see waiting on the other members to be present, but if Hammond was their top selection regardless of their fee then it might not be necessary. Homan said that it was his understanding that Bishop picked Hammond even at their high fee, but that it was very hard to swallow the higher fee. Carter said that for those who have some discomfort about the renegotiated fee, Woodham voluntarily said that the fee was possibly negotiable depending on the services required. The negotiation wasn't something that was initiated by the board. Mannix-Decker said that she understood that Homan and Wichmer had discussed the situation and that the board didn't have to give the other candidates the opportunity to put in a final bid. Homan noted that an allocation study would no longer be included in the fee. Woodham said that was something the actuary would probably do anyhow.

Homan said that if the information is delivered to the board properly through the two advisors, he has no question that it will be a great move for the fund. They will supply monthly reports and the board will know where things are all the time. Stark asked if any board members were leaning a different direction because if not then there is no sense in delaying the vote. It was noted that Bishop was at the subcommittee meeting when the decision was made to recommend Hammond to the full board. Homan also noted that Hartman's score sheet indicates Hammond by a pretty good margin.

Everyone agreed that the vote shouldn't be delayed. Homan asked for those in favor of Becker Burke to raise their hand. None noted. Homan asked for all those in favor of Dahab to raise their hand. None noted. Homan asked for all those in favor of Hammond to raise their hand. All voting members present (Carter, Cowherd, Gillette, Hoffman, Homan and Stark) unanimously approved Hammond Associates as the new investment consultant.

Mannix-Decker said that the Finance Department will begin working on the contract.

8. New Business

a. Actuarial Valuation as of June 30, 2010 – Michael Zwiener, Milliman

Zwiener started off by saying that the funding ratio is finally headed in the right direction after many years of decline. He said that when you see a contribution rate expressed in excess of payroll at 108%, that's pretty significant. In the context of things, we have a lower payroll than before due to the end of Tier II and also we are now amortizing the unfunded accrued liability on a much more aggressive basis than before. Those things together are why you get the percentage requirement that you see.

When costs change from one year to the next, they obviously analyze the factors. The biggest one is the change in amortization method. Investments actually generated a little bit of a loss. Returns on market value exceed 7.5%, but it still showed a loss because the smoothing method is still picking up the losses from previous years. The Tier II transfer percentage went up because the members that were moved were the youngest, shortest service, least expensive and also there was a decrease in payroll.

Zwiener pointed out that the covered payroll has decreased by nearly \$3 million because of the transfer of Tier II employees. He also noted that market value of assets was finally headed in the right direction for the first time in a long time. The actuarial value of assets has slowly been increasing, but again that is due to the smoothing. One thing that is positive to him is that when you compare the market value of assets to the actuarial value of assets, the difference is down from nearly \$35 million to \$21 million. We don't get to ignore the investment losses, but we get to recognize them over a four or five year period. We've recognized a large portion in this last year.

Mannix-Decker stated that the accrued sales tax monies from May and June aren't included in the actuarial report. The monies weren't received until July and August, but she thinks to be consistent it should be on an accrual basis to match up with the financial statements. There would be an additional \$4 million in sales tax monies to include in the report. She recommends that this change be made and a revised actuarial valuation be generated. Zwiener said that from a funding standpoint he's not particularly concerned whether it is recognized now or next year. It would be simple for Milliman to modify the report and recognize it now. Obviously this will make the results look a little bit better this time around. Homan asked if anyone had any objection to this. None noted. Zwiener suggested gathering up the reports at the end of the meeting and he will generate a revised report so that two different versions aren't floating.

Wichmer entered the meeting at 10:05 a.m.

Zwiener noted a net rate of return of 8.8%. He said he would imagine that's lower than what was reported by the investment consultant. He would submit to the board that the investment return number from the investment consultant is a more accurate assessment of what the return is. He said the 8.8% is accrued measure. It doesn't take into account timing of contributions. It assumes all the ins and outs happen in the middle of the year and that's a pretty good assumption, but this year there were additional contributions that came in at the tail end of the year. Homan said that going back to Segal's June 30th report, which doesn't include cash, the investments were 11.1% for the fiscal year. Zwiener said they don't make an explicit assumption on expenses and there are obviously administrative expenses and investment expenses. They are assuming the rate of return nets against that.

Zwiener said the recommend contribution is the sum of the entry age normal cost (cost of benefits earned in the current year) and the entry age unfunded accrued liability. The amortization payment is the cost of paying off the unfunded accrued liability. The level dollar 20-year method is a much more aggressive amortization of the unfunded. The plan is now closed and there is a new funding source. These things make it rational to shorten the period over which we are going to amortize the unfunded accrued liability. Previously we were doing it over a 30-year period and spreading it over payroll.

Zwiener explained that what they expect to happen is that as time goes on and more sales tax monies are added as well as City's and member's contributions, it's going to more than cover the recommended contribution, it's going to help eat into the unfunded accrued liability and it's going drive the funded ratio up. He said that five years of the sales tax aren't enough, but 10 years is too much. They did a study last year that indicated somewhere around 7-8 years of sales tax monies were necessary. He said at the end of the five year sales tax if the ratio is in the 70's or 80's, certainly one approach would be to immediately look for a five-year extension, but he thinks it would be much less acute. It wouldn't be like it was an eminent disaster waiting to occur. Maybe there's going to be some other approach for funding. He agrees that it will take some additional funding. It may not be a renewing of the sales tax for another five years, but it will take additional funding beyond the five-year sales tax.

Gillette said that if we went with the assumption that there was going to be another five years of the tax, what interest rate assumption would you use that would say that you are fully funded with five more years rather than the two and a half? He added that the big risk we have is that we are still highly leveraged on something that we know is relatively volatile. If we work with the assumption that we ask for five more years, we can make this a much more conservative investment strategy with a much greater probability of success. He said this would be another mid-point kind of idea to frame the discussion with the City. Rushefsky said she thinks that developing alternatives is a really great idea and the board needs to be working on that early. She said the irony is that the better the funded ratio looks the harder it will be to convince the public to renew.

Hoffman asked Zwiener if he thought at the end of five years if he thinks the plan will still need to achieve the 7.5% or could we be looking at something less aggressive. Zwiener said he would expect that as time develops and we get a shorter time horizon, the investment policy is probably going to get more conservative. Good things would be de-risking the plan. He said you might say why don't we move to fixed income right now? Well the plan doesn't have enough money. You can't really de-risk the plan until it is better funded. Zwiener said he thinks we'll move in that direction, but he's not the one who should be setting the investment policy. Gillette said he thinks Hoffman's question is premature until there are options to look at. He added that the board has to get guidance from Council. Based on the options the board provides, they need to give feedback on what they think the most likely scenario is because we can't set investment policy until we have a sense for where the money is going to come from. It's a little bit of a chicken and egg thing.

Zwiener concluded by saying they will recognize the sales tax accrual as directed. Milliman will generate a revised report. The additional information regarding alternatives will be issued as a standalone addendum document. He will have the revised valuation available in a few days, but it will take some additional time for the alternatives.

9. Old Business Continued

b. Administrative Director

Homan reported that the Selection Committee hit a glitch this month and needed clarification as to whether the board had the go ahead to make this hire, kind of in the same light as we got into with the discussion on the investment consultant and whether it is the board's hire or the City's. He thinks that has all been ironed out so he's going forward with finding a recruiter to help with the hiring process. He's talked to some local recruiters and he will give the information to Wichmer for review. Homan added that he also has some names of recruiters that are hopefully more focused in this area and can find a person with a broader search. He's actively seeking a recruiter and can't move forward until that is finalized.

c. Board Member Elections

White said that Carter, Dancy and Hoffman's terms are all up in December. She questioned why the police term was extended a year and now both police members are up at the same time, but the fire members are not. Wichmer said what they tried to do was that the voting member would be up and the non-voting member would be the candidate. If the associations thought the non-voting member was doing a good job then they would move up to the voting position and someone new would be brought in to learn the system. He said he would have to go back and look at what the ordinance says, but he thought the idea was to stagger them. Thompson would be allowed to be on the ballot if he wanted to try to move up and be the voting member.

10. Legal Matters – Closed Session, pursuant to Section 610.021(1), RSMo.

Hoffman made a motion to move to closed session at 10:35 a.m. pursuant to Section 610.021(1), RSMo.; 2nd by Homan. Vote all: Yes.

Resumed open session at 12:15 p.m.

11. Adjournment

Gillette made a motion to adjourn the meeting; 2nd by: Homan. Vote all: Yes. The meeting was adjourned at 12:15 p.m. on October 14, 2010.